

October 14, 2003

The Honorable Vincent P. Meconi
Secretary
Department of Health and Social Services
Herman M. Holloway, Sr. Campus
1901 N. DuPont Highway
Main Bldg.
New Castle, DE 19720

Dear Secretary Meconi:

The Office of Auditor of Accounts (AOA) has completed its investigation into the theft of funds at the Wilmington Office of Vital Statistics (OVS). The following paragraphs detail the results of our review.

BACKGROUND

On January 13, 2003, the AOA received a letter from the Department of Justice, Office of the Attorney General, stating that their office had begun an investigation into missing funds from the Wilmington OVS. An internal audit conducted by the agency Director of the New Castle County Office revealed \$39,000 in missing cash over a period of seven months. A preliminary investigation conducted by the Attorney General's Office indicated a significant lack of policy and accountability within the agency that allowed this theft to go undetected. The letter also stated that the agency had two remaining offices in Dover and Georgetown that had not been reviewed. The purpose of the letter was to inform the AOA of the matter and to request a formal audit be conducted to eliminate the possibility of other undetected irregularities.

On January 27, 2003, a meeting was held in the Wilmington office of the Attorney General. Those in attendance were Ms. Brenda Connor, Social Services Administrator, Division of Public Health, Department of Health and Social Services; Ms. Mary Perkins, Public Health Administrator, Division of Public Health, Department of Health and Social Services; Mr. Tony Davolos, Criminal Investigator, Office of the Attorney General; and Mr. Edward L. Watson, Field Audit Manager, AOA. The purpose of the meeting was to discuss what was known about the missing funds and to formulate a plan for further investigative work. Mr. Davolos stated that the Attorney General's Office had requested that the AOA conduct an audit of the theft of funds at the Wilmington OVS and to perform an internal control review of the Division's cash receipting and depositing process.

In the meeting, Ms. Connor stated that she had performed an audit of the available records and found \$39,000 to be missing for the period February 2002 through October 2002. We were informed that the employee responsible for the theft was the on-site supervisor, a Senior Clerk, who had been with the Department for 17 years. There were only 7 months worth of records available for audit; the assumption being that the employee had destroyed the other records. Ms. Connor further stated that there were some written policies and procedures prior to the discovery of the theft and that subsequent to the discovery she had implemented new procedures. Those new procedures were to be made available to auditors during the course of the review.

Ms. Connor explained that in the ideal situation, the customer fills out an application for a copy of a birth, marriage, or death certificate, receives the copy, and pays the appropriate fee. At the end of the day the supervisor completes the daily tabulation form, depicting how much money was received according to the number of copies sold that day. Also, the cash register tape (also known as the Z tape) should accompany the close out form and be forwarded to the Dover office where fiscal personnel reconcile the activity. We were informed that the reconciliation process only consisted of matching the reported deposit total to the corresponding bank deposit ticket. In addition, Ms. Connor discovered that the cash register tape was not being forwarded to the Dover office by the supervisor.

Mr. Davolos stated that the suspect told him that any cash deposits made into his personal bank account was money that he had stolen. As a result of this information, Mr. Davolos subpoenaed the employee's bank records for the period of January 1, 1996 through October 3, 2002.

A decision was made by the AOA to examine the available records at the Wilmington office to determine the actual amount of funds received and compare that total to the amount of funds deposited into the bank. Once the Wilmington office was completed, we would conduct an unannounced internal control review at the Georgetown office and the Dover office. The decision was made that the AOA would issue two reports; the first report would address the investigation of the stolen funds and be submitted to the Office of Attorney General. The second report would report on the internal control review and would be addressed to the Department of Health and Social Services.

SCOPE/METHODOLOGY

We obtained and reviewed the new policies and procedures that were prepared following the discovery of the theft. We visited each site where key employees were interviewed and daily operations were observed. We requested and obtained available records for specified time frames at each location. We attempted to document daily revenues received and make a comparison to amounts deposited into the bank. In addition, we verified all cash deposits made by the suspect into his personal account for the period January 1, 1996 through October 3, 2002.

REVIEW RESULTS

SUSPECT'S PERSONAL BANK ACCOUNT

Using the subpoenaed bank records we totaled each month's cash deposits for the review period and found that approximately **\$153,000** had been deposited. The information was forwarded to Mr. Davolos for incorporation into the theft charge filed against the suspect, since the suspect had stated that this would be the amount he stole from the OVS.

OFFICE OF VITAL STATISTICS

The State of Delaware Budget and Accounting Policy Manual, Chapter I, page 1 states; "The accounting practices of the Accounting Manual are not simply recommendations of the Budget Director- - they are the law of this State with which there must be total compliance by all agencies." Furthermore, the manual states; "Department or agency heads are responsible for establishing and maintaining an effective system of internal control. Such departmental policies/procedures shall be in writing, and will reasonably ensure that:

"All assets can be accounted for and safeguarded against waste, loss, unauthorized use and misappropriation:

"Revenues and expenditures are recorded properly so that reliable financial reports may be prepared.

"The transactions are clearly documented, and the documentation is available for examination."

WILMINGTON OFFICE

At the Wilmington office, we were informed that the suspect's last day of work had been October 3, 2002. Records were available dating back to February 21, 2002. Our period of examination was February 21, 2002 through October 3, 2002. We obtained all available applications, cash register receipts, Reports of Daily Fees Received, and deposit tickets for this time frame. Each application had a cash register receipt attached to it which indicated whether the transaction had been made by cash or check. It was decided to focus our attention on the cash transactions since that is where the theft, in all probability, occurred. We then documented the amount of cash received each day per the receipts and compared those amounts to the actual amount of cash deposited as documented on the Daily Record of Fees Received and the bank deposit ticket. We found that the office received \$78,534 in cash for issuing copies of birth, marriage, and death certificates, but only deposited \$36,156 of those funds into the bank, resulting in a total of \$42,378 in missing funds.

We conclude that the misappropriation of funds occurred due to the following conditions:

- A lack of segregation of duties whereby one employee was entrusted to count the money-received daily, prepare the Daily Report Form of Fees Received, prepare the bank deposit ticket, and make the deposit at the bank;
- The cash register tape, which depicted all activity on a given day, was not attached to the Daily Report of Fees Received which was used by the finance section to reconcile reported deposits to actual bank deposits reported through the Cash Receipts reports. A verification of those two instruments would have revealed discrepancies.
- Managements failure to properly monitor activity at the Wilmington office: no on-site visits were conducted

GEORGETOWN OFFICE

At the Georgetown office, we requested all applications, cash register receipts, Reports of Daily Fees Received, and deposit tickets for the time frame of July 1, 2002 to May 31, 2003. We selected random days and attempted to verify that cash received was deposited by utilizing the same procedures as had been performed at the Wilmington office. After being unable to match the amounts received per cash register tapes to the amounts recorded on the Reports of Daily Fees Received and bank deposit tickets, we asked the clerk to explain their procedures. She explained that up until February of 2003, when new procedures were implemented, she had been preparing the deposit ticket and making the deposit at noon each day. Thus, the revenues accounted for would be from the previous day's afternoon sales and the current day's morning sales. Therefore, the amounts on the various forms did not match and reconciling activity by day could not be performed.

DOVER OFFICE

At the Dover office, we attempted to perform the same procedures as we did at the Georgetown office. Again, the amounts recorded on the various source documents did not match. Upon interviewing the clerk at this location, we learned that cash was counted and forms prepared whenever time allowed. There was neither established time nor consistency from day to day. Again, reconciliation's by day could not be performed for the same reason as documented for the Georgetown office.

We also found that there was no system in place to control the number of documents issued to each site. An inventory of the pre-numbered documents was not maintained and documents were issued to sites upon request and not identified. Voided documents were shredded and unaccounted for in the reconciliation process.

In addition, at each site we found that the filing of documents was random and was not organized. At the Wilmington office, applications were bound with rubber bands or paper clips and shoved into file drawers. Needless to say, some paper clips had fallen off and some rubber bands had broken. At the Georgetown facility, the applications were also bound together daily by rubber bands and stored on shelves in the vault area in no particular order. Again, they were quite cumbersome to handle. At the Dover facility, the applications were stapled together by day and filed on shelves in the storage room; again in no specified order. Some of the applications had become unattached, making it difficult to determine if all documents were available for review.

During the course of our investigation we were provided a copy of the new policies and procedures governing daily operations, establishing standardization, and providing control over the handling of revenues. We reviewed these procedures and found that they adequately address areas of shortcoming mentioned previously in this report. For instance, a standardized cut-off time of 4:15 has been established for receiving funds each day. Money received for that day is then to be counted, the Daily Fees Received Report prepared, the bank deposit ticket prepared, and the Z tape removed from the cash register and attached to the Daily Fees Received Report. In addition, information contained on each source document is to be verified for accuracy; all discrepancies are to be resolved; and verification of the information is then to be performed by another employee.

Another control implemented is the accounting for all pre-numbered documents issued by each location. Voided documents are to be retained with the reason for voiding the documents.

CONCLUSIONS

We conclude that:

1. We could not affirm that other thefts could have occurred due to the varied depositing practices found at each location.
2. The lack of adequate segregation of duties created an atmosphere where missing funds could go undetected.
3. The lack of adequate supervisory oversight afforded employees the opportunity to misappropriate State funds.
4. The lack of comprehensive, standardized policies and procedures created an environment where each site operated in its own manner.

5. There was no control over the number of documents issued to each site nor were all documents accounted for, i.e. shredded/voided in the reconciliation process.

RECOMMENDATIONS

WE RECOMMEND THAT the Division of Public Health ensure that appropriate supervisory responsibility is delegated and provided to ensure that the newly established internal control policies and procedures are followed. **WE FURTHER RECOMMEND THAT** the Division of Public Health devise a new filing system for their records, which will provide for easy accessibility and accountability.

The findings and recommendations were discussed during an exit conference with Department representatives on August 21, 2003. Representing the Department were Ms. Valencia L. Beaty, Director, Division of Management Services, and Mr. Charles Britton, Deputy Director, Division of Management Services. Representing the AOA were Mr. R. Ronald Draper, Chief Administrative Auditor, and Mr. Edward L. Watson, Field Audit Manager.

AUDITEE'S RESPONSE



**DELAWARE HEALTH
AND SOCIAL SERVICES**

OFFICE OF THE SECRETARY

September 30, 2003

Mr. R. Ronald Draper, CGFM
Chief Administrative Auditor
Office of Auditor of Accounts
401 Federal Street
Townsend Building, Suite One
Dover, DE 19901

Dear Mr. Draper:

SUBJECT: Office of Vital Statistics Audit Report

We have reviewed your report dated August 27, 2003, regarding the audit findings for the Office of Vital Statistics located within the Division of Public Health (DPH). Listed below are the activities that we will be implementing to address the recommendations included in this report.

Recommendation:

The Division of Public Health ensures that appropriate supervisory responsibility is delegated and provided to make certain that the newly established internal control policies and procedures are followed.

Response:

- Ms. Brenda Conner, Vital Statistics Manager, will work in the Wilmington office one to two days per week, and in the Georgetown office one to two days per month. This will allow her to provide training, to observe that policies and procedures are being followed and to take any corrective action that is deemed necessary.
- Ms. Conner will review and initial all daily fees reports from each office and provide a summary to her supervisor on a weekly basis. Any discrepancies are investigated and explained and corrective action implemented.
- The Division of Public Health's Support Services Section will perform monthly audits - choosing three random dates and will review the Daily Fees Reports from each office for those dates. Staff will explain any discrepancies found and any corrections needed will be implemented.

Recommendation:

The Division of Public Health will devise a new filing system for their records, which will provide for easy accessibility and accountability.

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AUDITEE'S RESPONSE

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Response:

- Beginning October 1, completed application forms (both counter and mail) will be filed by date then by simplex number in labeled accordion folders. (In Dover, Vital Statistics staff will make a copy of the mail applications and file the copy alphabetically as is done now to facilitate responding to customers' inquiries.) The most recent three-month period applications will be kept in an active file cabinet in each office. Older applications will be stored in a file cabinet or a labeled box in the same order stated above. Applications will be kept for at least one year or until a successful audit has been conducted by the Office of Auditor of Accounts or other authorized entity.
- Daily fees reports and voided paper will be maintained in a file.
- DPH Support Services is investigating technological solutions for filing alternatives, (i.e. scanning systems to CDs) due to lack of storage space in each of the offices.
- Additional file cabinets are being ordered to facilitate storage.

If you have any further questions or concerns regarding this matter, please feel free to contact Charles E. Britton, Deputy Director, Division of Management Services (302) 255-9003.

Sincerely,

Vincent P. Meconi
Secretary

VPM: tgm

cc: Valencia L. Beaty, Director, Division of Management Services
Maureen Dempsey, M. D., Director of Public Health

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AUDITOR'S COMMENTS

On October 1, 2003, we received the Department's response to our findings and recommendations. As a result of our review of the response, we conclude that the Department will be taking the necessary corrective actions to correct the deficiencies noted in our report.

Sincerely yours,

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

RTW:ELW:MKT

Case number 2003-009

cc: Ms. Valencia L. Beaty, Director, Division of Management Services, Department of Health
and Social Services
Mr. Charles Britton, Deputy Director, Division of Management Services, Department of
Health and Social Services